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THE TOBACCO SITUATION

This is the first issue of The Tobacco Situation, one of a new series of commodity situation reports inaugurated by the Bureau of Agricultural Economics. The Tobacco Situation, tentatively scheduled for release in January, March, July and September, will provide current information on changes in the factors which affect the demand for and the supply and prices of tobacco. Comments, criticisms, and suggestions on the present form of this report are welcome.

Summary

The tobacco situation in 1936-37, as contrasted with 1935-36, is characterized by reduced supplies, an increasing rate of consumption of many tobacco products, somewhat lower exports during the first few months of the marketing season, and higher prices to growers. The higher prices reflect both reduced supplies and increased demand. The increased demand for tobacco products, as evidenced by increased consumption without a reduction in retail prices, is the result of increased consumer purchasing power and the addition of new consumers of tobacco products. The most marked increase in domestic consumption has taken place in cigarettes.

The effects of the increased demand on prices paid for the two most important types of cigarette tobacco have been considerably different. In the case of flue-cured, prices have been only slightly higher than those of last year, the increase in domestic consumption being largely offset by a relatively large supply and a slightly lower foreign demand. On the other hand, there has been a marked increase in the price of Burley, since supplies have been materially reduced and foreign demand is of relatively slight importance.

Stocks at the beginning of the 1937-38 marketing year will probably be further reduced, since consumption during 1936-37 will exceed production for most types. The higher prices being paid to farmers for their tobacco, however, will probably stimulate increased plantings, although the effect of possible interstate compacts for control of acreage and production can not as yet be foreseen.

Flue-cured, Types 11-14

The supply of flue-cured tobacco for the 1936-37 season is practically the same as the 1935-36 supply. Stocks in the hands of dealers and manufacturers on July 1, 1936, amounted to a farm-sales weight equivalent of 871,000,000 pounds compared with 753,000,000 pounds the previous year. The increase in stocks was largely offset, however, by a decrease in production from 811,000,000 pounds in 1935 to 695,000,000 pounds. Consequently, the supply of 1,566,379,000 pounds is only 2,616,000 pounds larger than the 1935-36 supply.

Total disappearance (domestic consumption plus exports) of flue-cured tobacco usually increases in years when the supply increases, and decreases when the supply is smaller. With this year's supply being practically the same as that of last year, it is unlikely that disappearance will greatly exceed the 1935-36 disappearance of 692,500,000 pounds. Increased domestic consumption may be at least partly offset by lower exports.

The chief domestic use for flue-cured tobacco is in the manufacture of cigarettes, the consumption of which reached a record high of around 150,000,000,000 during 1936. Tax-paid withdrawals during the first 11 months of 1936 were 12.1 percent above withdrawals during the same period in 1935. The increase has been even more marked in recent months, the July-November withdrawals for 1936 being 13.4 percent above those of last year. The wholesale price of the popular cigarette brands was recently raised from $6.10 to $6.25 per thousand. Although this will probably result in higher retail prices in many localities, the growth in consumption is likely to continue.

Some flue-cured tobacco is also used in the manufacture of smoking and plug chewing tobacco, the consumption of which has not changed significantly. Production of smoking tobacco during the first 10 months of 1936 was less than one-half of 1 percent greater than during the first 10 months of 1935; production of plug chewing tobacco for the same period declined by 3.2 percent.

Total exports of flue-cured tobacco from the United States during the 5-month period, July - November 1936, were 173,915,000 pounds, 3.8 percent less than for the same period in 1935. Increases in exports to China and other countries were not sufficient to offset a 15.9 percent decrease in exports to the United Kingdom, the most important foreign market for United States flue-cured tobacco. Exports to the United Kingdom reached a record high level in 1935-36 because of depleted stocks in that country and it is probable that exports during 1936-37 will be more in line with the current rate of consumption in the United Kingdom.

With approximately 94 percent of the crop already marketed by the end of December, the average price for flue-cured tobacco was 22.2 cents per pound compared with a season's average of 20 cents in 1935. Although that part of the crop still to be marketed will probably bring lower prices because of lower quality, the season's average will not be materially below the average to date.

Higher prices for the 1936 crop as compared with those for 1935 will probably stimulate increased plantings this year. Monthly prices, by types, are given below for this and the 2 previous marketing years.

Flue-cured tobacco: Price per pound received for warehouse sales in Georgia, North Carolina, South Carolina, and Virginia, by types and months, 1934-35 to 1936-37

Type and year	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
	Cents	Cents	Cents	Cents	Cents	Cents	Cents
Type 11 -							
1934-35	25.2	27.8	32.3	28.1	18.7	16.0	9.0
1935-36	19.7	18.1	22.0	21.3	17.4	14.4	9.5
1936-37	---	24.8	23.5	23.3	19.4		
Type 12 -							
1934-35	26.2	27.8	35.0	28.1	14.4		
1935-36	19.2	18.9	23.8	20.3	15.5		
1936-37		21.5	24.9	21.9	12.6		
Type 13 -							
1934-35	24.1	21.0	19.0				
1935-36	21.7	17.9	16.4				
1936-37	23.2	21.1	14.5				
Type 14 -							
1934-35	18.7						
1935-36	18.9						
1936-37	21.0						

Burley, Type 31

With the 1936 production of 217,000,000 pounds the smallest since 1927, and stocks of 681,000,000 pounds the smallest since 1931, the total supply of Burley tobacco this year is 898,000,000 pounds. This is a decrease of more than 93,000,000 pounds from last year's supply, and the third successive year in which supplies have decreased. On the other hand, disappearance has increased every year for the last 4 years and will undoubtedly show another increase in 1936-37.

The domestic use of Burley is in cigarettes and in smoking and chewing tobacco. Exports during the first part of the present marketing season have been above those of last year, but foreign demand for Burley constitutes a relatively small part of the total demand. There has been no significant change in the consumption of smoking or chewing tobacco in recent years, the increased use of Burley being due to expanded cigarette consumption. From 1920 to 1930, cigarette consumption increased on the average by 7,500,000,000 per year. It fell off in 1931 and 1932, but has again been on the up-grade in the last 4 years, with an average annual increase of about 11,700,000,000.

If the upward trend in Burley consumption continued at the present rate, the stocks on hand on October 1, 1936, would be exhausted in a little over 2 years. Since tobacco is usually stored for 2 years or more before it is used in the manufacture of cigarettes, the 1936 crop of Burley would be the only crop aged sufficiently to fulfill this requirement by the end of 1938 when present stocks would be largely exhausted. The 1937 crop, which may be large, will still be new crop tobacco and hardly suitable for use in 1938. The 1936 crop is small compared with present consumption, and when considered relative to the probable future demand it appears even smaller.

As a result of this situation, unusually high prices have been paid for Burley this season. The Kentucky warehouse sales report, giving total sales in that State from the opening of the markets on December 7 and 8 to the end of the month, reports an average price of 40.7 cents per pound paid to growers of Burley tobacco. The average price for the 1935 crop was 19.1 cents.

Although prices were well maintained during the first week in January, with new high levels being attained on many markets, they have since declined rapidly. Prices for good cigarette grades have shown the least declines, however, and it is probable that the season average price will be between 35 and 40 cents per pound, which would be a record high. The high prices being paid will probably result in increased plantings this year.

Burley tobacco: Price per pound received for warehouse sales in Kentucky, by months, 1934-35 and 1936-37

Year	Dec.	Jan.	Feb.	Mar.
	Cents	Cents	Cents	Cents
1934-35	18.5	17.4	12.9	13.4
1935-36	20.2	18.3	12.4	7.2
1936-37	40.7			

Burley tobacco: Average price per pound received at specified markets in Kentucky, season 1930-35 and 1936 to January 9

Market	1936 to Jan. 9	Season's average 1/					
		1935	1934	1933	1932	1931	1930
	Cents	Cents	Cents	Cents	Cents	Cents	Cents
Lexington	45.49	19.78	18.56	12.31	13.37	10.34	16.96
Shelbyville ...	39.27	18.86	16.81	10.17	11.18	7.33	14.32
Maysville	32.77	16.34	16.57	9.98	12.33	8.83	15.22
Carrollton	35.65	19.90	16.01	8.64	11.63	8.26	12.28
Cynthiana	46.19	18.70	19.12	10.11	11.68	8.91	16.18
Danville	41.71	19.25	17.01	10.97	11.85	8.45	16.73
Harrodsburg ...	43.29	18.59	18.16	10.97	12.25	7.99	15.78
Mt. Sterling ..	40.55	18.41	17.96	9.97	13.26	9.13	16.45
Paris	46.27	20.50	20.17	12.10	14.13	10.41	17.44
Richmond	42.52	18.65	17.51	10.50	13.84	9.21	16.46

Season's average 1930-35, compiled from report of R. M. Barker Tobacco Company, Carrollton, Ky.; 1936, compiled from Tobacco, Vol. CIV, No. 2.

1/ Marketing season usually begins in early December.

Maryland, Type 32

Production of Maryland tobacco for 1936 is estimated at 29,600,000 pounds, the largest on record. Although stocks figures are not yet available for January 1, the beginning of the marketing year, it is probable that they will not differ greatly from last year's stocks of 38,600,000 pounds. Total supply may be a little larger than last year's record supply of 66,500,000 pounds.

Domestic consumption of Maryland tobacco has been increasing steadily as a result of the expansion in the output of cigarettes. Some use of this type of tobacco in short filler cigars also has been reported recently.

Although exports during the first 11 months of 1936 were 28.8 percent above 1935 exports for the same months, they were still far below exports of pre-depression years.

In view of the large supply and low foreign demand, the price outlook for Maryland tobacco is rather uncertain, depending upon the extent of increase in domestic demand. In view of the strength in tobacco prices in general, it seems probable that prices will be maintained. For the past 4 years, average prices of Maryland tobacco have been markedly steady, showing only a slight upward tendency.

Maryland tobacco: Price per pound received for warehouse sales, by months, 1935-36 1/

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents
1935	10.8	12.8	17.5	18.2	20.4	23.1	23.7	22.5	16.6	16.4	12.9	7.9
1936	11.3	7.9	5.9	10.6	16.4	18.6	25.2	22.9	20.7	12.8	10.2	6.1

1/ Marketing season begins January 1 of the year following production.

Fire-cured, Types 21 - 24

Total production of fire-cured tobacco this year is estimated at 104,200,000 pounds. This is the smallest in many years. Although stocks this year are smaller than last year, they are still large relative to consumption.

Exports have continued to decline, October and November of 1936 showing a 36 percent decrease compared with 1935. Although snuff consumption, the chief domestic outlet for fire-cured tobaccos, has been increasing from the low level of 1935 (July-November withdrawals were 9.5 percent larger in 1936 than in 1935), the principal increase in domestic consumption has resulted from the byproducts-diversion program of the Agricultural Adjustment Administration.

Prices on the opening markets this year have been somewhat higher than last year.

Fire-cured tobacco: Prices per pound received for warehouse sales of Type 21 in Virginia and Types 22, 23, and 24 in Kentucky, by months, 1934-35 to 1936-37

Type and year	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
	Cents	Cents	Cents	Cents	Cents	Cents
Type 21-						
1934-35	14.1	12.0	12.8	11.6	8.8	
1935-36	11.1	10.5	11.0	9.8	9.2	
1936-37	11.3	11.5				
Type 22-						
1934-35			9.2	9.1	7.5	5.8
1935-36		8.7	7.8	8.1	7.4	
1936-37						
Type 23-						
1934-35			8.2	8.1	5.8	4.9
1935-36			6.1	6.7	6.7	
1936-37						
Type 24-						
1934-35		8.6	7.8	7.0	5.1	
1935-36		6.3	6.3	6.4	5.7	
1936-37		1/				

1/ December sales were small and are to be included with January sales.

Dark Air-cured, Types 35 - 37

The 1936 supply of all dark air-cured types is 13 percent less than last year's supply and the lowest in many years, the greatest reductions being in the supplies of One Sucker and Green River, types 35 and 36. The low supplies have resulted partly from drought-reduced production and partly from lower stocks.

Although disappearance of these types of tobacco has been on a declining basis for many years, production during recent years has been less than disappearance. The production of chewing tobacco, the chief domestic outlet for these tobaccos, increased less than 1 percent in the first 10 months of 1936 over the same period in 1935.

Exports during the first part of the present marketing year have been lower, although exports of black fat, of which the larger part is One Sucker and Green River, have increased.

With disappearance this year probably remaining about the same as last year, and both production and stocks materially reduced, higher prices were to be expected this year compared with last year. The December price of One Sucker, type 35, averaged 19.4 cents showing a marked increase over the price of 6.8 cents for the same month in 1935. The December price of Virginia Sun-cured, type 37, was 12.5 cents, 3 cents higher than last year.

Dark air-cured tobacco: Price per pound received for warehouse sales of Types 35 and 36 in Kentucky and Type 37 in Virginia, by months, 1934-35 to 1936-37

Type and year	Dec.	Jan.	Feb.	Mar.	Apr.
	Cents	Cents	Cents	Cents	Cents
Type 35-					
1934-35	7.3	7.5	6.1	4.7	2.2
1935-36	6.8	9.1	8.6	3.8	
1936-37	19.4				
Type 36-					
1934-35	8.1	9.0	7.2	5.3	
1935-36	7.2	7.7	7.4	6.1	
1936-37	1/				
Type 37-					
1934-35	9.3	9.8	9.9	10.0	
1935-36	9.5	11.2	11.7	11.1	
1936-37	12.5				

1/ December sales were small and are to be included with January sales.

Cigar Tobacco

The outlook for most cigar types continues favorable. Although the production of 96,000,000 pounds is 9 percent larger than last year's production, the total supply is smaller due to reduced stocks.

Consumption has been greater than production in the past 3 years, and the same will undoubtedly be true in 1936-37. Cigar withdrawals increased 6.7 percent during the first 11 months of 1936. The production of scrap chewing tobacco for the first 10 months, however, increased only 1.6 percent.

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Production, stocks, supply, and price of tobacco in the United States, by types, 1935 and 1936

Types	Production 1935	Production 1936	Stocks, Oct. 1 1/ 1935	Stocks, Oct. 1 1/ 1936	Supply 1935	Supply 1936	Supply Change 1936 from 1935	Price 1935
	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds	Percent	Cents
Flue-cured, 11-14	811.2	695.1	752.6	871.3	1563.8	1566.4	+ .2	20.0
Va. fire-cured, 21	20.4	19.1	30.8	29.9	51.2	49.0	- 4.3	10.2
Ky.& Tenn. fire-cured, 22	68.9	59.1	148.6	134.7	217.5	193.8	-10.9	9.0
Ky.& Tenn. fire-cured, 23	25.8	23.8	40.5	38.4	66.3	62.2	- 6.2	7.4
Henderson fire-cured, 24	3.0	2.2	4.0	3.5	7.0	5.7	-18.6	6.4
Burley, 31	220.9	216.8	769.9	681.2	990.9	898.0	- 9.4	19.1
Maryland, 32	27.9	29.6	38.6	2/ 38.5	66.5	2/ 64.6	- 2.9	18.5
One Sucker, 35	13.0	11.6	32.7	28.8	45.7	40.4	-11.6	8.2
Green River, 36	15.2	11.2	34.3	30.7	49.5	41.9	-15.4	7.3
Va. sun-cured, 37	2.8	2.6	2.7	2.7	5.5	5.3	- 3.6	11.0
Pa. seed leaf, 41	28.2	32.2	99.9	102.1	128.1	134.3	+ 4.8	12.0
Miami Valley, 42-44 ...	17.4	13.2	65.8	60.2	83.2	73.4	-11.8	7.5
Ga.& Fla. sun-grown, 45	1.2	.8	2.7	2.2	3.9	3.0	-23.1	13.5
Conn. Val. Broadleaf, 51.	10.7	13.1	35.5	34.1	46.2	47.2	+ 2.2	17.6
Conn. Val. Havana seed, 52	6.7	8.0	30.8	26.1	37.5	34.1	- 9.1	16.9
N.Y.& Pa. Havana seed, 53	.7	1.1	2.0	2.0	2.7	3.1	+14.8	11.2
S. Wisconsin, 54	8.4	10.4	73.6	61.4	82.0	71.8	-12.4	7.3
N. Wisconsin, 55	6.9	7.9	41.5	33.1	48.4	41.0	-15.3	7.2
Conn. Val. shade-grown, 61	5.7	6.8	8.7	6.8	14.4	13.6	- 5.6	75.0
Ga.& Fla. shade-grown, 62	2.1	2.6	4.7	4.2	6.8	6.8	.0	65.0

1/ Flue-cured stocks, July 1; Maryland, January 1 of year following production.
2/ Preliminary estimate.

Tax-paid withdrawals of tobacco products July-November, and production of manufactured tobacco in the United States, July-October 1935 and 1936 1/

Products	Tax-paid withdrawals July-November 1935	Tax-paid withdrawals July-November 1936	Change 1936 from 1935	Manufactured tobacco	Production July-October 1935	Production July-October 1936	Change 1936 from 1935
	Millions	Millions	Percent		1,000 pounds	1,000 pounds	Percent
Large cigars ...	2,392	2,560	+ 7.0	Plug	21,754	21,133	- 2.9
Small cigars ...	79	78	- 1.3	Twist	1,964	2,225	+13.3
Small cigarettes	59,401,727	67,336,873	+13.4	Fine-cut ...	1,822	2,012	+10.4
Large cigarettes	1	1	.0	Scrap chewing	15,446	15,876	+ 2.8
Manufactured tobacco 2/ ...	132,414	131,009	- 1.1	Smoking	68,330	66,390	- 2.8
Snuff 2/	14,451	15,827	+ 9.5				

1/ Tax-paid withdrawals include products from the Philippine Islands and Puerto Rico
2/ Thousand pounds.

Tobacco, Flue-cured: Production, Stocks, Supply, and Price, United States, 1920 to Date*

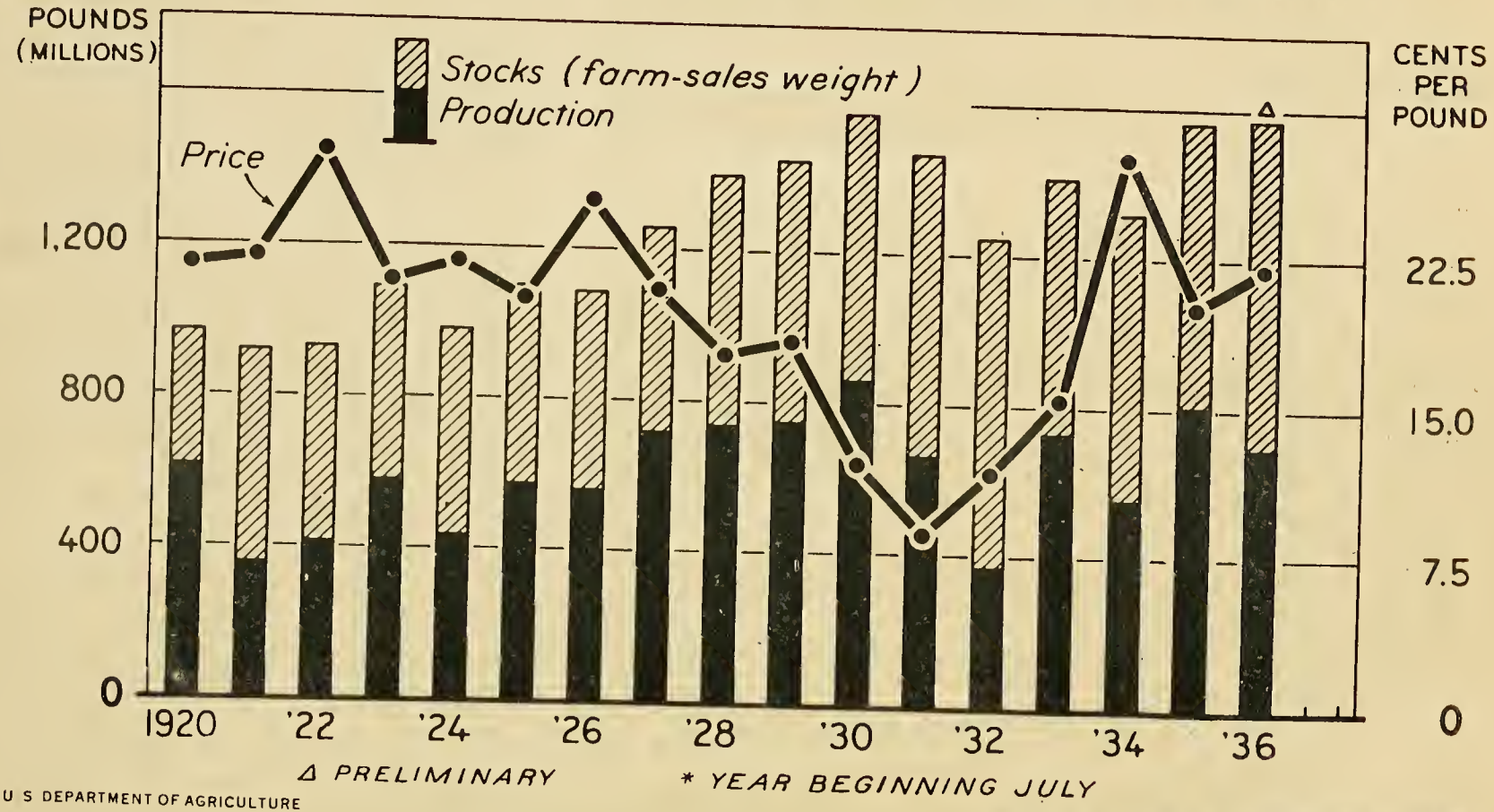

FIGURE 1.- ALTHOUGH THE 1936 SUPPLY OF FLUE-CURED TOBACCO IS NOT MATERIALLY DIFFERENT FROM THE 1935 SUPPLY, PRICES HAVE AVERAGED ABOUT TWO CENTS HIGHER. INCREASED CONSUMPTION OF CIGARETTES IS PROBABLY THE CHIEF FACTOR RESPONSIBLE FOR THE HIGHER PRICES.

Tobacco, Burley: Production, Stocks, Supply, and Price, United States, 1920 to Date*

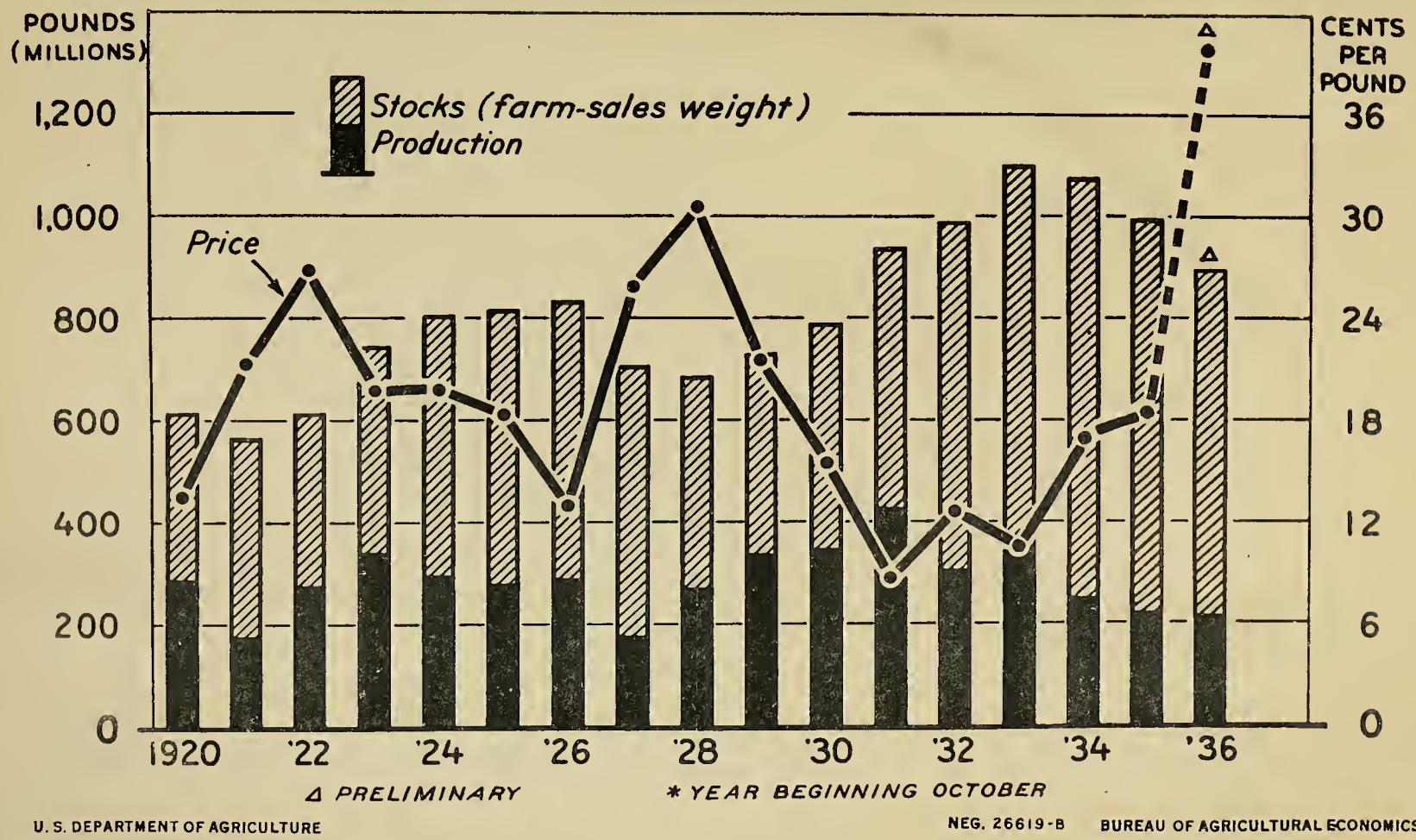

FIGURE 2.- BURLEY TOBACCO, WHICH IS ALMOST ENTIRELY CONSUMED IN THE UNITED STATES, DEMONSTRATES THE CLOSE RELATIONSHIP BETWEEN TOTAL SUPPLY AND PRICE. FOR THE THIRD SUCCESSIVE YEAR SUPPLY HAS DECREASED AND PRICES HAVE RISEN. EVEN IF THE DECEMBER AVERAGE OF 40 CENTS IS NOT MAINTAINED FOR THE REST OF THE MARKETING SEASON THE AVERAGE PRICE FOR THE YEAR 1936-37 WILL UNDOUBTEDLY BE HIGHER THAN FOR ANY RECENT YEAR.

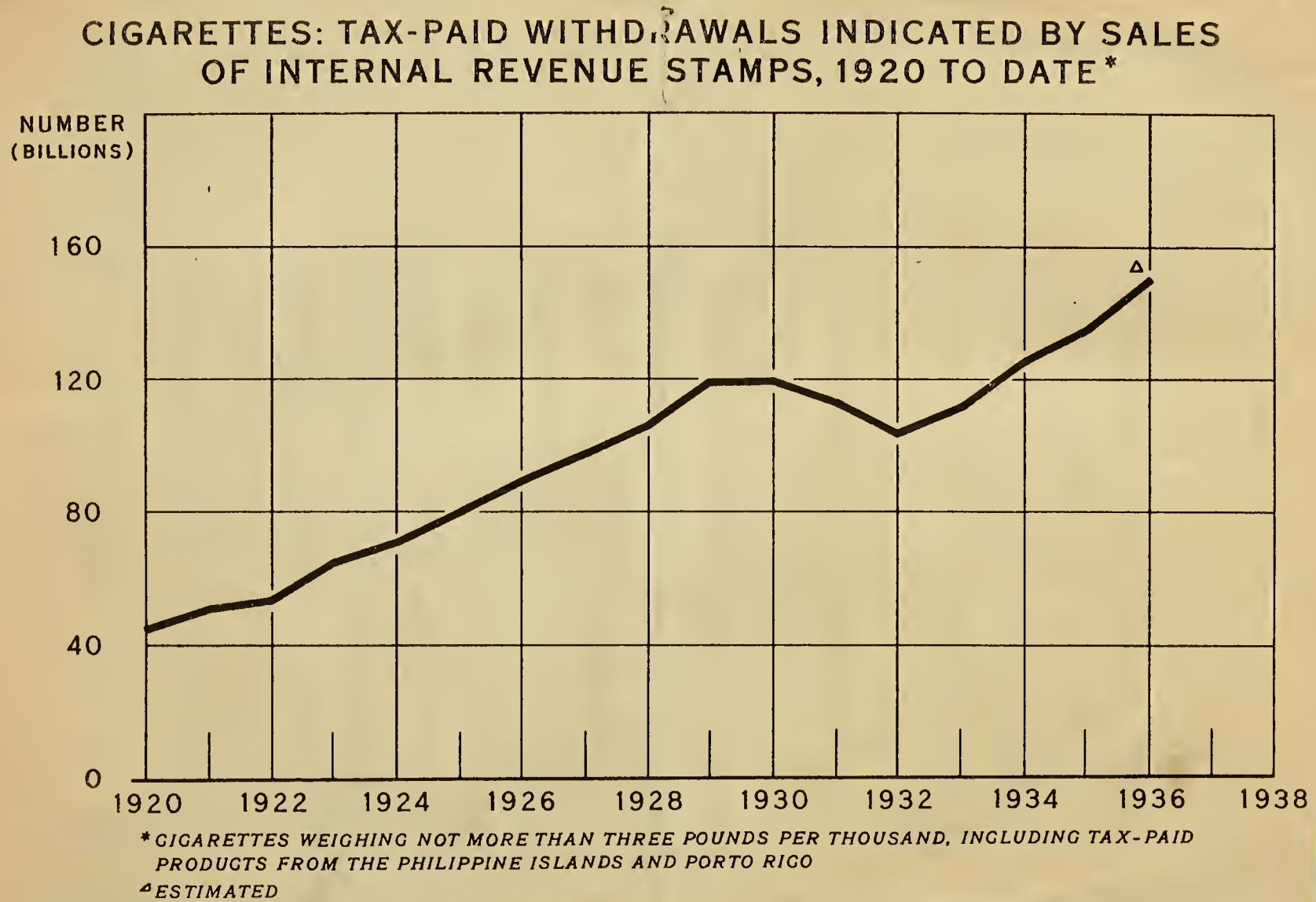

FIGURE 3.- THE GROWTH IN CIGARETTE CONSUMPTION FROM 1920 TO 1930 WAS REMARKABLY STEADY, AVERAGING ABOUT 7.5 BILLION CIGARETTES PER YEAR. AFTER DECLINES IN 1931 AND 1932, THIS GROWTH HAS CONTINUED, THE ANNUAL INCREASE FOR THE PAST FOUR YEARS AVERAGING 11.7 BILLIONS.

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